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SUBJECT: MERKEL'S CHARTER GETS GREEN LIGHT FROM G-20 SHERPAS

REF: BERLIN 159

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¶1. (SBU) SUMMARY. One of Chancellor Merkel's highest priority global economic initiatives got a boost from G-20 Sherpas at a meeting in Berlin on June 12, 2009. The Chancellor's top economic advisors presented her vision for a Charter for Sustainable Activity, which is Merkel's contribution to preventing another global crisis by establishing a broad set of principles for countries in economic affairs. The scope of the project is vast, encompassing finance, trade and investment, environment, and development, among other areas. As proposed, it would include not only a list of broad principles, but also a "code of codes" comprised of existing multilateral instruments, as well as a monitoring component. Some developed countries present at the June 12 meeting questioned the need for such a Charter, and fretted over how the initiative could detract from more pressing work on the financial crisis and trade taking place in other fora. Many developing countries were concerned the Charter would lack legitimacy unless non-G-20 countries joined in the process early on. In the end, most participants saw some value in drawing up an agreed set of broad principles. A new working group co-chaired by Germany, the United States and an emerging economy country will carry Merkel's Charter initiative forward and report on progress to the G-20 Sherpas. END SUMMARY.

GERMANS MAKE THEIR PITCH

¶2. (SBU) On June 12, 2009, top-ranking German officials, including the Chancellor, s chief of staff, Thomas de Maziere, hosted G-20 Sherpas in Berlin to discuss Angela Merkel's proposed Charter for Sustainable Economic Activity ("Charter"). Chancellery officials describe the Charter as non-binding "set of general principles," embodying "the values we seek to pursue in the context of our economic activity." The aim is the "ensure stable, socially balanced and sustainable development of the global economy through the application of shared principles and commitments." The proposal also includes a "code of codes" that brings together the "large but disparate body of existing rules," such as the various instruments of the Organization for Economic Cooperation and Development (OECD), International Labor Organization (ILO), World Trade Organization (WTO), World Bank and International Monetary Fund (IMF), all of which had contributed to a 191-page inventory in preparation for the June 12 meeting. Finally, the Charter should hold countries to account by making use of "existing monitoring structures in different international fora."

¶3. (SBU) Merkel's principal economic advisor Jens Weidmann proposed that the Charter cover seven distinct areas: 1) sustainable and balanced growth (i.e., free trade and open investment); 2) financial markets to support employment and growth (i.e., tighter financial sector regulation and supervision); 3) sound macroeconomic policy (i.e., cautious fiscal and monetary policy); 4) productive labor markets, decent work and social protection; 5) propriety, integrity and transparency (i.e., addressing tax havens, bank secrecy,

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corporate governance, etc.); 6) preserving our environment and resources; and 7) global partnership for balanced economic development. (NOTE: Area 5: propriety, integrity and transparency will incorporate the Italian initiative known as the "Global Standard," renamed the "Lecce Framework" following the June 13-14, 2009 G-8 Finance Ministers meeting in Lecce, Italy.)

¶4. (SBU) High-ranking officials from various German government ministries made their pitch for Charter elements falling under their responsibility. State Secretary Joerg Asmussen of the Finance Ministry, said the Charter should address the flaws in the market revealed by the financial crisis, and described the Charter's essence as "regulation and oversight of all markets, products and participants." State Secretary Bernd Pfaffenbach of the Economics Ministry highlighted the importance of free trade and open investment to economic growth, adding that labor mobility, intellectual property rights and combating climate change were other priorities. State Secretary Guenther Horzetzky of the Ministry of Labor put jobs at the top of his list, adding that the ILO's Decent Work Agenda could play an important role in the Charter. The Foreign Ministry's State Secretary Peter Ammon thought the Charter could replace the Washington consensus with a new framework for balanced growth, based on strengthened international cooperation. Ingrid Hoven of the Development Ministry said developing nations should participate in the Charter process once the G-20 had reached a consensus; she also articulated the Charter's value as a way to bring coherence to different policy areas. Karsten Sach of the Environment Ministry emphasized that economic growth was not sustainable without factoring in the environment; Sach wants an acknowledgement in the Charter that environmental resources are finite and a commitment to a "green recovery" harnessing new technologies. The Germans' strategy is to get agreement on the Charter by G-20 countries before inviting participation by a wider set of countries, possibly including all members of the United Nations.

SUPPORTERS

15. (SBU) Remarks by the following participants were positive, on balance:

AUSTRALIA: Australian participant Andrew Charlton said the Charter could be an important complement to the G-20 process. It should be even "more than a declaration of principles," he said. Since it represents the world's most important economies, the G-20 is the proper forum to take on the Charter project.

ARGENTINA: Argentinean representative Hector Timerman thought the Charter was a "good idea," but should be even stronger than a political declaration. He also thought its focus should be on development, and particularly "closing the income gaps among countries." Other priority areas for Argentina include jobs, global imbalances, intellectual property rights, technology transfer, climate change, fiscal sustainability and trade liberalization. Timerman said the

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UN should take over the Charter process so that other countries could get involved.

CHINA: Chinese Ambassador MA Canrong said the Charter was a way to deal with the financial crisis through "common approaches." He said the process should include non-G-20 countries to strengthen legitimacy, and should respect the interests of developing countries. He hoped the Charter would usher in a "new economic order that is just and rational."

FRANCE: Among the strongest supporters of the Charter, France sees the initiative as a way to "fill the gap between global political and economic integration." French participant Christian Masset noted that there had been a "change in the Washington consensus," and that the social and environmental factors were now considered just as important as economic factors. Masset said the UN system should carry the Charter forward following agreement by the G-20. General principles should be the first priority, with specifics to come later. Masset also voiced support for the Italians' "Global Standard."

ITALY: With a related initiative underway in the G-8, the Italians are practically co-sponsors of the Charter. Giandomenico Magliano described the Charter as a response to the flaws of globalization, and a step towards "putting our houses in order." He hoped the exercise could help reconcile the different instruments comprising the Charter. He also hoped it could help bring together discussions on the financial crisis under way in various fora, including the UN. Linking it to the Prussian philosopher Immanuel Kant, he described the Italians' "Global Standard" focusing on propriety, integrity and transparency as a building block for the Charter. Magliano thought legitimacy rested on broad ownership, which would require patience.

RUSSIA: Russia is another strong supporter of the Charter. Russian participant Alexander Pankin argued for a limited set of general principles, rather than more prescriptive rules, however. He thought the Charter could represent an "economic constitution" or a "development constitution." One way to include non-G-20 countries in the process could be by inviting international organizations to participate. He also said "weaker signatories" may need assistance from the others.

SPAIN: Spain is on the same page as Russia regarding the scope of the Charter. Spanish representative Javier Valles said the Charter should focus on principles rather than codes. He also agreed that international organizations, including the UN, should get involved. Echoing France, he said the Charter should cover both economic and social issues.

SAUDI ARABIA: Saudi delegate Hamad Al-Bazai said he thought the Charter was a good initiative. Saudi Arabia sees the Charter as a way to revamp the Washington Consensus.

THAILAND (ASEAN): Recalling the Asian financial crisis of the 1990s, Thai participant Ampon Kittiampon said the economy recovered long before the broader social wounds healed. He

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was therefore pleased to see the Charter address social factors in addition to economic ones. He hoped the Charter could be a "code plus," focusing on four broad principles: 1) sustainability; 2) stability; 3) shared responsibility; and 4) streamlining.

TURKEY: Turkey's representative welcomed the Charter's wide focus on labor standards, the environment, financial sector reform and economic growth. Selim Kuneralp stressed the importance of including non-G-20 countries in the Charter process to strengthen its legitimacy. Since the Charter would be a non-binding, political agreement, however, Kuneralp did not foresee a big obstacle for the non-signatories to certain of the existing agreements comprising the Charter.

EU COMMISSION: EU Commission representative Antonio Jose Cabral was supportive of the Charter, calling it a "top-down approach." He said the Charter offered opportunities for change. One area the Commission would like to see emphasized is taxation.

OECD: Seeking to allay concerns over the application of instruments to which not all countries were signatories, OECD representative Rolf Alter explained that non-members often sign onto OECD commitments, while not all OECD members are signatories. He hoped the Charter would be a "living instrument" that could adopt new elements as needed.

SKEPTICS

16. (SBU) While none of the following was openly hostile to the Charter proposal, each expressed concerns over certain elements:

BRAZIL: A clear skeptic of the Charter proposal was Brazil. While saying it was hard to disagree with the fundamental objectives of the Charter, Brazilian representative Luis Antonio Balduino strongly favored focusing on general principles rather than policy prescriptions. He noted that Brazil had not been involved in the Italian-led discussions on the "Global Standard." Balduino suggested that the Charter's drafters look to the preambles of existing instruments for inspiration rather than the text of those instruments.

CANADA: Canadian participant Peter Boehm outlined three concerns over the Charter. First, he fretted it could divert attention from the G-20 Working Groups following up on Washington and London Summit commitments. Second, he worried that the benefits for the public might prove minimal. Lastly, Boehm doubted the London Summit Declaration really committed the G-20 to carrying the Charter proposal forward. He suggested that G-20 commitments and deadlines be referenced in any Charter document. The success of the G-20 process thus far was that it worked on a discrete set of issues. He urged that G-20 members proceed "with their eyes open," and that failure was a possibility.

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CZECH REPUBLIC (EU PRESIDENCY): Czech participant Jana Matesova praised the G-20 forum, saying that the world's largest economies needed to talk to each other. Communication failure among G-20 countries was bad for everyone, including non-G-20 countries. Matesova hoped the Charter effort would not mirror what was already going on it

other fora, however. She thought the Charter should address the question of "global imbalances."

ETHIOPIA (NEPAD): Ethiopia's representative, Graham Stegmann, cautioned that others would judge the Charter by the results it achieved. The peer monitoring envisaged by the Charter's supporters was not a bad concept, if it could be done effectively and take into account the interests of those who would be affected. NEPAD does not want a "straightjacket" that might limit its flexibility in pursuing economic development goals. Stegmann acknowledged a "tradeoff between inclusivity and workability."

INDIA: Indian representative J.S. Mukul hoped the Charter would not supplant ongoing efforts to tackle the financial crisis in other fora. He expressed two concerns shared by other non-OECD members of the G-20. First, India is not a signatory to many of the instruments listed in the IO inventory. Second, it wants to ensure the Charter does not include instruments that would "straightjacket" developing countries striving to eliminate poverty. Overall, India would like the Charter's primary focus to be development.

JAPAN: Japanese participant Masato Takaoka was among those most critical of the Charter. He hoped Sherpas would not get ahead of G-20 leaders, and thought expectations should be played down with the public. Takaoka questioned a "one-size-fits-all" set of fundamental values. He thought that the issue of "global imbalances" was the most important issue at hand, but that the IMF was already addressing it. Takaoka questioned whether there was agreement at London G-20 Summit to work on a Charter. He also raised doubts about the legitimacy it would enjoy among non-G-20 members. On implementation, the OECD might be best placed to take the lead. Overall, Takaoka doubted the Charter represented any added value.

KOREA: Skeptical of the Charter, South Korean delegate Ho-Yung Ahn doubted that the London Summit communique had committed the G-20 to working on the Charter. He sought clarification on the Charter's relationship to ongoing efforts in other fora, and wondered if there was a real need for it. Ahn thought a focus on broad principles was "the way to go."

NETHERLANDS: Dutch participant Richard Van Zwol cautioned that the current crisis was far from over. The G-20 should not neglect dealing with the immediate problems even as it tries to prevent future crises. He hoped that the Charter process would be inclusive, flexible and transparent.

SOUTH AFRICA: South African representative Mandisi BM Mpahlwa had concerns about the legitimacy the Charter would enjoy if elaborated by the G-20 in isolation. There needs to be a

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basis for wider participation in the process. He thought G-20 countries could have the biggest impact by leading by example. Mpahlwa hoped any Charter would focus on "high-level principles" much as the Millennium Development Goals did.

UNITED KINGDOM: UK representative Jon Cunliffe identified "global imbalances" as the "elephant in the room," and said the Financial Stability Board should be invited to future Charter meetings. Imbalances had resulted from the previously held belief that if every country did what was good for itself, the entire system would benefit. In the wake of the crisis, shortcomings of national regulators were brought into light, though a movement towards international regulation was unlikely. Cunliffe questioned whether the machinery to ensure countries adhered to the Charter's standards was in place.

NOTE: Indonesia was not represented at the meeting.

17. (SBU) UNITED STATES: Calling the Charter a "long-term" project, U.S. Co-Sherpa David Nelson argued for a less technical, more principles-based approach. The United States wants to ensure the Charter embodies the highest standard principles, and does not water down any existing commitments.

He echoed South Africa in calling for an inclusive process to bolster legitimacy, after the G20 countries chart a path, and stressed the need for accountability. He also pointed out that many measures G-20 countries were undertaking to deal with the crisis in the short term may not be emblematic of long-term goals. Another key challenge will be defining the term, "sustainability." Keeping expectations realistic, the G-20 might consider forming a Charter working group, co-chaired by the United States, Germany and an emerging market country, which could report to G-20 Sherpas. If sufficient progress is made, there could be a report on the Charter at the G-20 Summit in Pittsburgh.

COMMENT

18. (SBU) From the German perspective, the June 12 G-20 Sherpas meeting on Merkel's Charter was largely a success. The Germans may have fallen short of getting agreement to pursue all three elements in their proposal -- principles, code of codes, and monitoring -- but they did get the green light to work on broad principles, which they regard as merely the first step. Key in this regard was getting the United States, as host of the Pittsburgh Summit, on board. Whether or not the entire array of issues, from development assistance to climate change, remains on the table is an open question. Broadening the G-20 agenda beyond the financial sector has implications for the future of the G-20 and global economic governance, and is hotly debated even within the German government. The fact that the Charter is moving forward probably increases the chance, however marginally, that Chancellor Merkel will attend the Pittsburgh Summit,

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which takes place days before the September 27 national elections in Germany. Being seen on the international stage playing a leading role on the issue of most importance in the election -- the economy -- may play well with German voters. Koenig